Financial Transactions and Reports Analysis Centre of Canada
Centre d'analyse des opérations et déclarations financières du Canada
Canada

OPERATIONAL ALERT

Reference number: 18/19-SIDEL-025
July 18, 2018

Professional money laundering through trade and money services businesses

Professional money launderers are sophisticated actors who engage in large-scale money laundering on behalf of transnational organized crime groups such as drug cartels, motorcycle gangs and traditional organized crime organizations. Professional money launderers sell their services to these groups and are involved in the majority of sophisticated money laundering schemes; they are not members nor are they involved in the predicate offences that generate illicit proceeds. As such, they present unique identification challenges.

While professional money launderers may be accountants, bankers or lawyers, current financial intelligence suggests that they often are owners of, or associated with, trading companies or money-services businesses. Professional money launderers use their occupation and knowledge, as well as the infrastructure associated with their line of work and their networks, to facilitate money laundering, providing a veneer of legitimacy to criminals and criminal organizations.

This operational alert provides indicators for money laundering carried out through trade and money services businesses. Entities required to report to FINTRAC should use these indicators on their own and in combination to identify potential professional money laundering activities. Reporting entities should also use these indicators in conjunction with a risk-based approach and other money laundering indicators. Financial institutions are especially well positioned to recognize and report on suspicious financial transactions that may be connected to professional money laundering. FINTRAC uses these indicators, along with other sources of information, to assess reporting entities' compliance with their reporting obligations.

Trade-based money laundering

Professional money launderers use trade transactions to legitimize proceeds of crime and move them between jurisdictions and between currencies. FINTRAC has observed two main schemes of this type.

- Schemes involving falsified customs, shipping and trade finance documents, including the following:
  - Phantom shipments: Transferring funds to buy goods that are never shipped, received or documented.
  - Falsely described goods and services: Misrepresenting the quality, quantity, or type of goods or services traded.
  - Multiple invoicing: Issuing a single invoice but receiving multiple payments.
  - Over/under invoicing: Invoicing goods or services at a price above or below market value in order to move money or value from the exporter to the importer or vice-versa.
- The Black Market Peso Exchange, which typically works as follows:
  - Transnational organized crime groups, such as Colombian or Mexican drug cartels, place proceeds of crime into the U.S. financial system through structured cash deposits (deposits that are organized to avoid record-keeping or reporting requirements) of U.S. dollars.

- A Colombian or Mexican importer buys those dollars from complicit brokers, paying for them in pesos.
- The importer uses the U.S. funds to purchase goods that are then shipped to Colombia or Mexico.
- The brokers return the pesos they received from the importer to the cartel.

There are many variations on the Black Market Peso Exchange—which is essentially a form of unregistered foreign currency exchange—involving locations other than Latin America, other criminal groups and other world currencies (although the U.S. dollar is the most common). The two versions FINTRAC observes most often are the following:

- Brokers send suspected illicit funds held in Latin America or the U.S. to Canadian trading companies, wholesalers, dealers and brokers via electronic funds transfer and, to a limited extent, cash courier. These entities subsequently send the funds to entities in multiple jurisdictions, including China, Hong Kong and the U.S., to pay for goods.
- Brokers send suspected illicit funds held in Latin America to U.S.-based entities of varying types, as well as to China- or Hong Kong-based trading companies, through electronic funds transfer via a Canadian financial institution acting as a correspondent bank.

Indicators of trade-based money laundering by professional money laundering networks

- An entity is a Canadian small or medium-size import/export company, wholesaler, dealer or broker operating in a sector dealing in high-volume, high-demand commodities with variable price ranges, including agri-food, textiles, electronics, toys, lumber and paper, and automotive or heavy equipment.
- The entity has business activities or a business model that is outside the norm for its sector, or conducts no business activities in Canada. It may also be difficult to confirm the exact nature of the business.
- The entity transacts with a large number of entities that have activities in the above-noted sectors or have names that suggest activities in a wide range of unrelated sectors, and also does some or all of the following:
  - receives a sudden inflow of large-value electronic funds transfers;
  - orders electronic funds transfers to the benefit of China- or Hong Kong-based trading companies or individuals, and receives electronic funds transfers from the U.S. and Latin American countries;
  - orders electronic funds transfers to the benefit of entities or individuals in the U.S., Mexico or Latin American countries, and receives such transfers from the U.S.;
  - orders or receives electronic funds transfers to/from entities holding a bank account in Latvia or Cyprus, and are registered to addresses in the U.K., Cyprus, the British Virgin Islands, Panama, the Seychelles, Belize, the Marshall Islands or other offshore financial centers; and
  - orders or receives payments for goods in round figures or in increments of approximately US$50,000.
- A trading company based in the United Arab Emirates orders electronic funds transfers to the benefit of individuals or entities in Canada.
- An entity's U.S. dollar business accounts held in Canada exhibit flow-through activity—that is, money is taken or transferred out of the account as quickly as it flows in.
- An entity imports currency (predominantly U.S. dollars) from Latin American countries.
- An entity makes large business purchases by credit card, funded by overpayments.
- An individual issues cheques, purchases drafts or orders electronic funds transfers through the account of a legal professional for trade-related payments.

Money services businesses

Money services businesses provide a wide range of unique and valuable financial services to Canadians and international customers; however, the sector has unique challenges and risks with respect to money laundering. Most money services businesses engage in legitimate activities but some allow professional money launderers to exploit their services with their full cooperation. Others turn a blind eye to the fact that they are serving criminals. Professional money launderers who own or are connected to money services businesses use these entities to place and transfer illicit funds.

Indicators of professional money laundering through money services businesses

- A Canadian money services business does some or all of the following:
  - receives a sudden inflow of large electronic funds transfers and cash deposits; this is followed by an increased outflow of electronic funds transfers, cheques and bank drafts made out to multiple unrelated third parties for loans or investments, or to the individual conducting the transaction;
  - undertakes numerous currency exchanges involving Canadian and U.S. dollars and/or Euros;
  - carries out business largely with or through Iran or other countries subject to sanctions, the United Arab Emirates, Kuwait, Hong Kong, and China or countries with internal capital controls; and
  - receives electronic funds transfers from foreign exchange and trading companies based in the above-noted countries for real estate transactions, loans or investments.
- A money services business owner, associate or employee does some or all of the following:
  - maintains personal account activity similar to that of a money services business;
  - attempts to avoid reporting obligations when exchanging currency on behalf of another money services business;
  - lists multiple occupations, addresses and/or telephone numbers with financial institutions or online;
  - lists occupation as immigration consultant, student, homemaker or unemployed;
  - lives outside of their reasonable means (i.e., buys real estate beyond what they could reasonably afford on their claimed income);
  - attempts to close an account(s) to avoid due diligence questioning;
  - receives wires and transfers from multiple sources in accounts at numerous banks and credit unions; the individual then depletes these amounts through drafts payable to self or for real estate purchases;
  - places large structured cash deposits into the same account at multiple locations on the same day; and
  - is a customer at many banks and credit unions, and negotiates many self-addressed bank drafts from various financial institutions.
- A Canadian import/export company has account activity similar to that of a money services business, including the following:
  - receives one or two large electronic funds transfers and then orders multiple outgoing cheques and drafts to multiple third-party individuals and companies; and
  - receives large incoming electronic funds transfers from Iran, the United Arab Emirates, Kuwait, Hong Kong and China for living costs, expenses or spare parts.

Reporting to FINTRAC

To facilitate FINTRAC's disclosure process, please include the term **#pml** in Part G—Description of suspicious activity on the Suspicious Transaction Report. (See also, Guideline 2: Suspicious Transactions and Guideline 3: Submitting Reports to FINTRAC.)

Contact FINTRAC

- **Email:** guidelines-lignesdirectrices@fintrac-canafe.gc.ca (include Operational Alert 18/19-SIDEL-025) in the subject line)
- **Telephone:** 1-866-346-8722 (toll free)
- **Facsimile:** 613-943-7931
- **Mail:** FINTRAC, 24th Floor, 234 Laurier Avenue West, Ottawa ON, K1P 1H7, Canada

© Her Majesty the Queen in Right of Canada, 2018.
Cat. No. FD4-16/2018E-PDF
ISBN 978-0-660-27307-5

FINTRAC Operational Alerts provide up-to-date indicators of suspicious financial transactions and high-risk factors related to new, re-emerging or particularly topical methods of money laundering and terrorist activity financing.